PREFATORY NOTE

These transcripts have been produced from the original raw transcripts in the FOMC Secretariat's files. The Secretariat has lightly edited the originals to facilitate the reader's understanding. Where one or more words were missed or garbled in the transcription, the notation "unintelligible" has been inserted. In some instances, words have been added in brackets to complete a speaker's thought or to correct an obvious transcription error or misstatement.

Errors undoubtedly remain. The raw transcripts were not fully edited for accuracy at the time they were produced because they were intended only as an aid to the Secretariat in preparing the records of the Committee's policy actions. The edited transcripts have not been reviewed by present or past members of the Committee.

Aside from the editing to facilitate the reader's understanding, the only deletions involve a very small amount of confidential information regarding foreign central banks, businesses, and persons that are identified or identifiable. Deleted passages are indicated by gaps in the text. All information deleted in this manner is exempt from disclosure under applicable provisions of the Freedom of Information Act.

Federal Open Market Committee

Conference Call

June 23, 1983

PRESENT: Mr. Volcker, Chairman
Mr. Solomon, Vice Chairman
Mr. Gramley
Mr. Guffey
Mr. Keehn
Mr. Martin
Mr. Partee
Mr. Rice
Mr. Roberts
Mrs. Teeters
Mr. Wallich

Messrs. Boehne, Boykin, Corrigan, and Mrs. Horn, Alternate Members of the Federal Open Market Committee

Messrs. Black, and Ford, Presidents of the Federal Reserve Banks of Richmond and Atlanta, respectively

Mr. Bernard, Assistant Secretary
Mrs. Steele, Deputy Assistant Secretary
Mr. Bradfield, General Counsel
Mr. Kichline, Economist
Mr. Truman, Economist (International)

Mr. Ettin, Associate Economist

Mr. Sternlight, Manager for Domestic Operations, System Open Market Account
Mr. Cross, Manager for Foreign Operations, System Open Market Account

Mr. Lindsey, Deputy Associate Director, Division of Research and Statistics, Board of Governors
Mrs. Low, Open Market Secretariat Assistant, Board of Governors

Messrs. Meek and Soss, Vice Presidents, Federal Reserve Bank of New York

Transcript of Federal Open Market Committee Conference Call
of June 23, 1983

CHAIRMAN VOLCKER. I thought it would be appropriate to review the situation and confirm or review our decisions on what degree of slight firming is appropriate and whether we're within the directive.

[Secretary's note: Messrs. Kichline, Cross, Ettin, and Sternlight reported to the Committee on recent developments. Their comments were not transcribed. A summary of those reports, based on staff notes, is included in the Appendix.]

CHAIRMAN VOLCKER. Turning to the decision process, I do not myself feel--as a matter of preference--that we need any vote or new decision today. But I want to confirm that we have a somewhat higher borrowing level than the $350 million that we talked about. As Peter said, after one week where it went somewhat the other way, we have been playing it cautiously--particularly against the background of the higher aggregates and the better business news and not wanting to mislead the market the other way--and ended up with a somewhat higher level of borrowings. It seems to me appropriate to maintain that level, which I interpret as in the $400 to $500 million range at this point. That's what I would like to get some judgment on, given the background. And I think that is not out of keeping with the general directive and not out of keeping with the basic guidelines on monetary expansion that were established at the previous meeting. But that's a matter of taste. I would just look for concurrence, if that's your wish, on that kind of borrowing level, taking account of fluctuations in excess reserves and the rest.

MR. WALLICH. This is Henry Wallich. The question is whether the borrowing is going to remain at these levels. In that case there has been an implicit move, which I think has been in the right direction.

CHAIRMAN VOLCKER. What I'm talking about is maintaining roughly these levels which, as I say, I interpret as $400 to $500 million. The actual level of borrowings, if we get a big bulge in excess reserves or something, is different. But I'm talking in terms of making the path something like $100 million higher, more or less, than the one we were talking about before.

MR. GUFFEY. What's the implication for the funds rate?

CHAIRMAN VOLCKER. Well, I'll let Peter address that.

MR. STERNLIGHT. I can chime in on that. With regard to the Chairman's suggestion of $400 to $500 million, I would associate that with a funds rate around 9 percent or a little higher.

MR. KEEHN. [Unintelligible] conversation, but what part of the borrowing would you interpret, Peter, [as related] to various computer and systems problems that we've experienced?

MR. STERNLIGHT. A little, but not a major part recently. I think some of the higher borrowing, particularly in the first couple weeks in June, was associated with reserve shortfalls for various reasons--mostly some high Treasury balances and on occasion unexpectedly high demands for excess reserves. I don't have a recollection of any major computer-related or wire problems in the last two weeks.

MR. KEEHN. At the last meeting there was some considerable sentiment by a number of people to move toward a higher borrowing level. And we finally did compromise at the $350 million level. But it seems to me that events that have transpired since then would be consistent with your suggestion that we move the borrowing level up to the $400 to $500 million area. So, I would be in favor of that.

MR. PARTEE. Si, this is Chuck Partee. I agree with you. I think that everything that has occurred has been a little stronger than we anticipated at the last meeting and that the third quarter is developing as a very, very good quarter indeed in terms of final sales prospectively. Although Jim didn't put a figure on it, I think it's going to be much stronger. The aggregates are all a little on the high side. M1 is very much on the high side. So, I don't think we ought to back down a bit from where we are. My only question is whether we ought to move further. I would agree with the Chairman, though, that we would want to be gradualist about this and that we have a meeting coming up not too long from now, so $400 to $500 million is acceptable to me.

VICE CHAIRMAN SOLOMON. Mr. Chairman, this is Tony Solomon. I think that $400 to $500 million is reasonable under today's conditions. It would mean that there wouldn't be any further movement unless anticipations carried it somewhat further than the 9 to 9-1/4 percent that Peter Sternlight was talking about. I think it's reasonable and consistent enough with the majority view on a slight increase in restraint that I don't think there needs to be a rewriting of the [directive]. I agree with you, therefore, that this can simply be a consultation in which we agreed on this somewhat higher level of the borrowing assumption.

CHAIRMAN VOLCKER. In that connection, what I would be inclined to do--though it could be done another way--is not, as you say, rewrite the directive because I think this is generally within the scope [of the existing directive]. But I would include in the written record that there was a consultation and that we confirmed that a slight increase in pressures was appropriate.

VICE CHAIRMAN SOLOMON. Does that get published?

CHAIRMAN VOLCKER. Yes. Well, it doesn't have to. We could do it either way. But we have some precedent for publishing something like that, and it might be useful.

MR. PARTEE. Yes, I think we have to indicate that there was a [consultation].

VICE CHAIRMAN SOLOMON. So, does that raise the question of a vote?

SPEAKER(?). No, I don't think so.

CHAIRMAN VOLCKER. No. We have precedents for all different ways. We can have a vote; then we have to rewrite the directive. Well, we don't have to rewrite the whole directive but we have to have something to vote on--a specific sentence. We can just do what I suggested, which amounts to pretty much the same thing except we don't list a vote. The bottom line would be that we reviewed the business situation, the aggregates, and the international situation. Everything looked a bit stronger and the Committee consensus was that, consistent with the directive, pressures would be slightly tightened.

VICE CHAIRMAN SOLOMON. Even though your voice faded, we did get the last sentence. I agree with the approach you outlined. I think it's a moderate response, but I'd go along with it.

CHAIRMAN VOLCKER. The other alternative, just to complete my thought--and we have precedents for this--is that we can have a consultation and not say we had a consultation. I don't know why, but my instinct is that we might as well say we had one.

VICE CHAIRMAN SOLOMON. I think it's because we never mention in our record, as I remember, what the borrowing assumption is.

CHAIRMAN VOLCKER. Oh no, we wouldn't cite that anyway. It would be some language to the effect that we're operating consistently with a slight increase in reserve pressures. That's all it would say.

VICE CHAIRMAN SOLOMON. Okay, if it's not published, it's all right. But if it were to be published, then that would sound like a further increase in restraint and that is beyond what the majority decided last time.

CHAIRMAN VOLCKER. No, it would be stated as consistent with the directive. And we have a directive that says "slight increase." All we're doing is consulting about what a slight increase is, in these terms. I think it's consistent with what we've done at times in the past. As I say, we have alternatives all over.

MR. WALLICH. I think there would be some merit in this case in having a public record. There is enough of a movement so we should recognize it--without changing the directive, however.

CHAIRMAN VOLCKER. That is my instinct. I don't know quite why I feel that way, but it just seems natural to say we have this under review. We have a pretty vague directive, so we're just indicating publicly that we've kept it under review between meetings and reconfirmed the idea of a slight increase in pressures. But the emphasis would be on "reconfirmed."

MR. MARTIN. I think the advantage in some careful public indication of this kind is in the reduction of the fear that is in the market that we will not take gradual and careful interim steps, but on the contrary that we will sometime down the road, as in the common expression, "slam on the brakes." This would be a good signal, if carefully enunciated, to minimize that fear that is in the market.

CHAIRMAN VOLCKER. I don't want to get too bogged down on procedures at this point. Let's return to the substance. Does anybody else have any comments?

MR. BLACK. Bob Black, Mr. Chairman. I agree with you completely. And I would favor showing it in the record. It will look a lot better if it's as strong as it appears to be to show that we met and did something.

CHAIRMAN VOLCKER. Any other comments? In the absence of a comment, I will interpret it as a consensus, which is the way the record of the consultation will be written.

MR. GUFFEY. Mr. Chairman, Roger Guffey. Do I understand that what you plan to show publicly is that the Committee met and confirmed the slight firming that has already taken place?

CHAIRMAN VOLCKER. I wouldn't word it just that way. I would just say that we met, we reviewed the business situation and the strong news that was reported. We reviewed the aggregates and they looked a little stronger. In the light of all these facts, the Committee consensus was to confirm its decision that a slight firming in reserve pressures is desirable.

MS. TEETERS. You're not going to take a reported vote on it?

CHAIRMAN VOLCKER. No, I wouldn't have a vote. It will just be reported as a consensus that a slight firming was consistent with the directive we already have.

MR. GUFFEY. What has already happened?

CHAIRMAN VOLCKER. Well, in fact, it has already happened, but this--

VICE CHAIRMAN SOLOMON. Well, I must be dense. It seems to me that what you're doing is leaving it open to ambiguous interpretation, which may be just as well. But it could either be a slight firming, which doesn't go beyond the firming that was in the last directive, or it could be a slight additional firming even though it's still consistent with the last directive. Am I correct that it is open to both of those interpretations?

CHAIRMAN VOLCKER. I think probably so, and I'm not sure I see the damage in that ambiguity.

VICE CHAIRMAN SOLOMON. I'm not sure either, but I think it is ambiguous. Okay.

MR. KEEHN. Mr. Chairman, this is Si Keehn. We're in the middle of a director's meeting and I wonder if I could be excused to get back there before--

CHAIRMAN VOLCKER. You can be, if it's agreeable that this is the consensus. Hearing no objection, I think you can go, Si. I'll just ask whether anybody else has anything else they want to bring up and you go.

MR. KEEHN. Okay, thank you.

CHAIRMAN VOLCKER. Not hearing any other business before the house, we will stop. Thank you.

VICE CHAIRMAN SOLOMON. Mr. Chairman, your voice fades. The Washington end fades very, very frequently. Maybe somebody ought to take a look at the system again.

CHAIRMAN VOLCKER. We're going to take a look at the system for various reasons. The more we look at it the worse it seems to get. But we'll try once again.

VICE CHAIRMAN SOLOMON. Is that the Federal Reserve System or the communication system?

SPEAKER(?). Both!

CHAIRMAN VOLCKER. That comment refers to the communication system. Okay.

END OF SESSION